

Message Text

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VIENNA FOR GEORGE DIETZ

E.O. 11652: N/A

TAGS: ETRD, SZ

SUBJECT: WITHHOLDING TAXES ON INTEREST PAYMENTS: EXIMBANK CFF
PROGRAM

REF: BERN 2853, STATE 134166, AND PREVIOUS

1. SUMMARY. JULY 31 MEETING BETWEEN MR. GEORGE DIETZ AND SWISS TAX OFFICIALS CLARIFIED SOME ISSUES BUT INDICATED SWISS UNWILLING OR UNABLE PROVIDE TAX EXEMPTIONS FOR INTEREST ON CFF LOANS. EMBASSY RECOMMENDS MR. DIETZ RETURN FOR MEETING WITH DIRECTOR OF TAX ADMINISTRATION IN LATE AUGUST OR EARLY SEPTEMBER. END SUMMARY.

2. ON JULY 31 MR. DIETZ AND EMBOFF MET WITH DRS. LEUTHI AND STOCHAR OF SWISS TAX ADMINISTRATION TO DISCUSS ANTICIPATORY TAC PROBLEM. ALTHOUGH DR. LOCHER, DIRECTOR OF TAX ADMINISTRATION, ON VACATION UNTIL LATE AUGUST, MR. DIETZ AGREED TO MEET WITH TECHNICAL LEVEL OFFICIALS IN ORDER TO SHOW HIGH DEGREE OF USG INTEREST IN RESOLVING PROBLEM.

3. MR. DIETZ REVIEWED NATURE AND PURPOSE OF CFF PROGRAM AND EXPRESSED HOPE THAT WAY COULD BE FOUND TO RELIEVE

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CFF LOAN INTEREST FROM ANTICIPATORY TAX.

4. ACCORDING TO DR. LEUTHI, CFF LOANS TO DOMESTIC BANKS ARE CONSIDERED UNDER SWISS LAW TO BE INTER-BANK DEPOSITS AND INTEREST PAID BY LOCAL BANKS TO EXIM SUBJECT TO ANTICIPATORY TAX. EXEMPTION OF DEPOSITS (LOANS) OF ONE YEAR OR LESS IS NOT RPT NOT CONTAINED IN ANTICIPATORY TAX LAW BUT IS BASED ON ADMINISTRATIVE INTERPRETATION. WHEN LAW WAS REVISED IN 1965 TO INCLUDE INTEREST ON DEPOSITS, SWISS BANKERS EFFECTIVELY LOBBIED FOR ONE-YEAR EXEMPTION. SINCE MOST INTER-BANK DEPOSITS ARE FOR LESS THAN ONE YEAR, THIS INTERPRETATION ELIMINATED TAX BURDEN FOR LOCAL BANKS. DR. LEUTHI ALSO SAID THAT NEITHER INTEREST ON EXIM LOANS MADE DIRECTLY TO IMPORTERS NOR EXIM GUARANTEES WOULD BE SUBJECT TO TAX.

5. MR. DIETZ POINTED OUT THAT ABOVE DID NOT RESOLVE EXIM'S PROBLEM. MOST CFF LOANS GRANTED FOR MORE THAN ONE YEAR. DIRECT LOANS USUALLY MADE ONLY TO BIG CUSTOMERS AND CFF PROGRAM DESIGNED FOR SMALL ONES. CFF LOANS MADE THROUGH LOCAL BANKS TO REDUCE RISK AND PAPER WORK FOR EXIM AND BECAUSE LOCAL BANKS BETTER ABLE TO LOCATE AND DEVELOP SMALL CUSTOMERS.

6. DR. LEUTHI THEN SAID THAT REVISION OF US-SWISS CONVENTION ON DOUBLE TAXATION TO ELIMINATE TAX ON EXIM LOANS, AS HAS BEEN DONE WITH JAPAN, APPEARED TO BE ONLY SOLUTION. HE DID NOT RECOMMEND THIS COURSE OF ACTION, HOWEVER, SINCE OPENING CONVENTION TO REVISION MIGHT CREATE MORE PROBLEMS THAN IT WOULD SOLVE.

7. COMMENT: MEETING USEFUL IN THAT IT CLARIFIED SOME ISSUES ON BOTH SIDES. UNFORTUNATELY, IT ALSO INDICATED THAT SWISS UNWILLING OR UNABLE TO PROVIDE EXEMPTION FOR EXIM. EMBASSY BELIEVES, HOWEVER, THAT MR. DIETZ SHOULD RETURN TO BERN IN LATE AUGUST OR EARLY SEPTEMBER FOR MEETING WITH DR. LOCHER.
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